State of Utah – Board of Oil, Gas and Mining
Cause No. 2016-018, Docket No. 139-140
EP ENERGY E&P COMPANY L.P.'s ("EP") COMMENT TO AXIA ENERGY II, LLC's ("AXIA") EXHIBIT "AB"
October 5, 2016

Axia's Amended and Restated Request for Agency Action dated August 16, 2016 ("RAA") is not supported by reliable data applicable to the subject area of the field, and without data from a representative pilot to justify it, displacing the existing 640-acre spacing units in favor of incompatible 1,280-acre spacing units based on Axia's speculative EUR estimates and overly aggressive setbacks would be irresponsible. Axia's Request for Agency Action in Docket No. 139-138 was approved by the Board on July 18, 2016, and Axia's first long-lateral horizontal well ("LLHW") in the spacing unit(s) established thereby is currently being drilled. The RAA therefore is premature, and the State of Utah, Board of Oil, Gas and Mining ("Board") should deny Axia's request until such time as Axia can complete a full development (32 LLHW) pilot program on the lands covered by Axia's Request for Agency Action in Docket No. 139-138, thus allowing Axia to gather enough actual well data to justify further displacing the well spacing pattern and setbacks in existence on the RAA lands.

Axia's Exhibit "AB" correlates Axia's interpretation of the EUR degradation from north to south to the depositional environment in the RAA lands and compares vertical and horizontal type well economics, to claim that LLHW economics will be favorable compared to vertical well economics in the RAA lands. EP disputes Axia's geologic interpretations and its projected type well economics for vertical and LLHW wells in the RAA lands.

On Axia's Exhibit "AB," the depiction of vertical well performance being limited to 180 MBO was described as a statistical average of the existing wells drilled in the southern two-section tier of Townships 2 South, Ranges 1-3 West, U.S.M. There are 13 vertical wells drilled in this area, but only one was drilled and completed to a depth sufficient to test the Lower Wasatch. That well is the Cook 1-26B1 Well, which has an EUR of 400 MBO. A similar EUR was produced by the Dustin 1-22B3 Well (EUR 421 MBO), which was also drilled to the Lower Wasatch. Interestingly, both of these wells were used by Axia for their Lower Green River/Wasatch Type Log, Exhibit G. However, the remaining wells, with lower EUR's, should not be included in the statistical average, as they are not representative of a well to be drilled and completed to the Lower Wasatch Formation. EP's vertical type well of 425 MBO (as described on EP's Supplemental Exhibit "E-6") is based on a well drilled to sufficient depth, with a fully completed wellbore from the Lower Wasatch to the top of the Lower Green River (TGR3) via its initial completion, two future recompletions and ultimate plug drill out, yielding a BTAX ROR of 25%. The 180 MBO type well described by Axia is not analogous to a vertical well drilled and completed in the Lower Wasatch to the top of the Lower Green River, and therefore the economics in Axia's Exhibit "AB" are not representative of a vertical well's true potential.

The depositional environment is also a factor in the EUR assumptions made by Axia on Exhibit "AB." While EP's data is based on actual well data from parts of the field with the same depositional environment as the RAA lands, Newfield's "Central Basin" (Township 3S-R1W, -2W and E/2 of 3W) wells are in a different depositional environment. EP's Replacement Exhibit "G-6" shows the area of preferred geologic facies, which represents greater oil and gas pay. The greenish blue area represents the overlap of Upper Wasatch north sourced and Lower Wasatch south sourced geologic facies. The approximate sandstone rich southern edge changes to carbonate rich south of the RAA lands. The deeper south sourced oil and gas rich geologic facies was identified with EP 3-D seismic and geologic evaluation both in EP Kendall 3-15B2 and Huber 3-13B2 Wells, and in most wells EP drilled in T3S-R4W, U.S.M. The geology in the RAA lands is different from Newfield's "Central Basin" area to the south, due to a change in lithology from sandstone rich to carbonate rich. Therefore, data from Newfield wells in the Central Basin does not apply to the RAA lands. Only a full pilot on the lands covered by Axia's Request for Agency Action in Docket No. 139-138 would yield the results necessary to determine if the spacing, well density and setbacks proposed are appropriate for the RAA lands.

Capital costs are an additional component of the type well economics represented in Exhibit "AB." It is important to note that with an average of $10.0 MM per LLHW, Axia would need to spend $320.0 MM to fully develop just one 1,280-acre spacing unit with 32 LLHW's. To fully develop the same area with 16 vertical wells, EP would spend $5.0 MM per well. So, for the same amount of capital, EP can fully develop 8 sections for every 2 sections that Axia can develop. It's highly unlikely that any prudent operator would spend $320.0 MM to fully develop the resources under a single 1,280 acre unit. So, while EP has demonstrated that it can and will fully develop the resources economically and that its EUR's are real, Axia must inflate its EUR's to justify the huge investment it would require in order to recover them. Because Axia's costs are so high and its EUR's are inflated, it's much more likely that EP will fully develop the resources under the RAA lands, while Axia will not.

Axia's assertion on Exhibit "AB" that vertical wells are uneconomic compared to LLHW's is not borne out by a comparison of actual activity between EP's vertical development program and the nearby horizontal program. As depicted in EP's Exhibit "E-3," EP has drilled 87 vertical wells since 2012 in the 3S-4W area of the field, which is depositionally similar to the "Central Basin" area. EP now has 4 sections with 4-well development, 14 Sections with 3 wells, 10 Sections with 2 wells, 3 Sections with 1 well each, and a start on 80-acre development with 1 Section containing 6 wells. During the same period, in a similar geographic area which is under horizontal development, there are only 23 total horizontal wellbores: 6 LLHW's on 1,280-acre spacing units and 17 short-lateral horizontal wells on 640-acre spacing units. Most units have only 1 horizontal well and only 3 have 2 horizontal wells. If the EUR's and economics of Newfield's LLHW's were as attractive as Axia claims, then Newfield would not have shut down its multi-rig drilling program between February 2015, and March 2016, while EP continued with its vertical drilling program during that same time period. Although multiple horizontal wellbores can (and will need to) be drilled within each 1,280-acre spacing unit, the fact is that they have not been; and as a result, more resources have been (and will likely be) developed under the vertical program than under the horizontal program. Referring to EP Exhibit "E-4", EP contends that owners who are in EP's 640-acre spacing units in Sections 14 and 23 of T3S-R4W with 7 vertical wells have benefitted more than those who are in 1,280-acre spacing units with 1 net LLHW well, like Newfield's Sections 13 and 24 of T3S-R4W.

In Exhibit "AB," Axia represents Newfield economics for a horizontal type well. Axia testified that Newfield filed a letter "in support" of the RAA, yet Newfield's letter did not claim to support their application, but only that Newfield did "not object." Newfield would have made an appearance at the hearing if they actively supported the RAA. And if Newfield was confident in Axia's EUR's, then Newfield also would not be negotiating alternatives to participating in the first 2 LLHW's being drilled in the RAA 139-138 lands by Axia. Indeed, Newfield is not the applicant with respect to this RAA, nor did they make an appearance at the hearing in support. Rather, Axia has sought to proceed independently in an attempt to govern how the 29% working interest in the RAA lands not owned by Newfield or Axia should be developed and how correlative rights should be impacted. However, the size of EP's ownership relative to Axia's (or Axia and Newfield) should be irrelevant. Testimony for EP's Exhibit Supplemental "L-3" was that EP has the largest ownership in 3 of the 20 sections affected by the RAA and intends to be operator of at least 12 vertical/directional wells in those 3 sections. That is a material interest, and in its deliberations the Board should give EP's interest and development plans the same weight as Axia's. EP also owns an interest in all but 4 of the 20 sections subject to the RAA, and would be involved in (diluted into) every one of the proposed 1,280-acre spacing units. EP requests that the Board protect the correlative rights of all royalty owners and working interest owners, no matter the relative size of their interests.

EP urges the Board not to be swayed by speculative interpretations and by projected drilling activity levels that are hypothetical at best. Axia has not provided any data to indicate whether drainage will occur between wells 1,000' apart, let alone 330', in the RAA area; nor has Axia tested whether or not 32 LLHW's per 1,280-acre spacing unit is economically practical to develop the resource. Until proven otherwise by a full development pilot, its EP's position that Axia's RAA if approved will actually result in resources being stranded, leading to waste; will be detrimental to correlative rights of owners both inside and adjacent to the RAA lands; and will not maximize the value of this part of the field for the benefit of the owners or for the citizens of the State of Utah.